The MORTGAGE BANKER

VOL. II—NO. 12 JUNE 15, 1940

Methods of Handling Construction Loans

Cross-Section Poll Discloses That MBA Members Resort to Varied Practices in This Phase of the Mortgage Business

EDITOR'S NOTE: *A few weeks ago* THE MORTGAGE BANKER *queried several representative member companies in various sections of the country seeking to learn what methods they use in handling construction loans. The following replies were received.* THE MORTGAGE BANKER *presents the most pertinent points found in these letters.*

W. W. Beal, president of the Iowa Securities Company of Waterloo, Iowa, reports that before making a construction loan his company requires a statement from the borrower as to the persons who are furnishing the main items of material and labor.

"On the bottom of such statement we have a form of waiver of mechanic's liens which we require to have signed by the contractors. The persons signing the waiver do not waive their right to liens, but merely state that they make such liens junior to the lien of our mortgage. The reason we modify the wording in this manner is that there may be cases where the borrower has made arrangements to have part of the bill carried for a time, but where the mechanic does not wish to release his right to a lien we are concerned only with the seniority of our own mortgage.

"We have not been in the habit of demanding waivers from everybody before we begin making payments. When the borrower requests the first advance of money we require that he at that time furnish us waivers from a sufficient number of contractors to keep us protected. As the building progresses, still others are required to sign and all must be signed before final payment is made.

"The ideal system would be to demand waivers from every material man and contractor before making our first advance, but often this is not practical. In some cases, creditors have refused to sign a waiver until they have been paid in full. In such cases we require a written statement from him as to the amount of his bill and we agree to sign the waiver when such amount has been paid. Whenever possible we file our mortgage before any improvement has been made on the ground. Under Iowa law we believe that this practice makes our mortgage senior to any subsequent liens, but we still require such lien waivers as a double check.

THE Mortgage Bankers Association has had numerous requests from its members, asking for suggestions on the various procedures used by member companies in handling construction loans. In an attempt to answer these requests The Mortgage Banker asked a few of its members in different states to prepare an analysis of the methods they use in this particular phase of their business. The various practices utilized by a few member companies are outlined in this article.

Wilson D. Wood, president of the Wilson D. Wood Mortgage Company, Kansas City, Missouri, said it is the policy of his company to make construction loans only to reliable builders erecting homes for sale, or to owners for whom a home is being erected by a reliable contractor.

"If possible, we endeavor to record our deed of trust before any construction work is started to avoid priority of liens," Mr. Wood said.

The Wood Company rarely requires a surety bond for two reasons. First, because of keen competition the cost of such a bond is a considerable handicap; and second, because recovery on these bonds is usually an extended and difficult procedure.

"We always take a personal bond which involves no expense, if available and some protection seems necessary.

"We prefer to satisfy ourselves as to the financial responsibility and reputation of the builder or contractor. If of unquestioned responsibility, we usually pay out in almost any reasonable manner requested with the intention of never advancing more than has actually been spent on improvements. If there is some question as to financial responsibility of a builder or contractor, we set up a detailed schedule of the esti-

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mated cost of construction divided into various classifications, and endeavor to check against this schedule receipted bills that are required when advances are made. With frequent inspections of the building during construction, we are usually able to avoid any difficulty.

"When advances are to be made during construction, we always require the builder to pay out his portion of the cost of construction, that is, the difference between the total cost and net proceeds of our loan, before advancing any funds.

"In connection with FHA loans, we are willing to advance up to 60 percent of the value fixed by the FHA on their conditional commitments by recording a deed of trust for this amount securing a loan for 15 to 20 years amortized monthly, which may remain a permanent loan if sale can be made subject to this type of loan. If an FHA loan is required at the time of sale, new papers are drawn for the purchaser approved by the FHA. Advances during construction are made under this type of loan as outlined above."

The Monarch Investment Company, Wichita, Kansas, when requested for a commitment on construction loans, places the mortgage of record before any material is delivered on the ground. Under Kansas statutes, the mortgage is a prior lien providing construction has not been started.

Requires Lien Waiver

When the loan is presented by a lumber company, the company is usually required to sign a lien waiver acknowledging the mortgage as a prior lien, according to R. E. Lightner, vice president of The Monarch Investment Company.

"If the lumber company is compelled to file a lien it will be subject to our mortgage. In consideration of this waiver, we make checks jointly to the contractor and the lumberman, allowing the lumberman to check the expenditures so that no funds are disbursed except to labor's sub-contractors and for other materials used on the job.

"We also obtain an affidavit from the contractor listing all bills, and then make checks jointly to the material men and contractor, taking a receipt from each party for payment in full. Despite this precaution, there are liens filed occasionally, in most cases over a disputed amount such as extras. The advantage of having the lumberman, or principal creditor, file a waiver is that all other bills will be paid first, and if there is a shortage the lumberman holds the contractor for the shortage.

"Our company charges $1.50 per $100 for funds advanced. We are very cautious in checking the bills with the supply companies before paying out. We prepare a list of these companies and sub-contracts before disbursement. We find that in checking these closely with the material men before construction is started, and requesting them to sign a lien waiver, that they will check into the job carefully and ascertain whether the contractor's bid is ample to complete the job and pay all the bills."

Is the Borrower A Good Risk?

Before making a construction loan the Realty Mortgage Company of Birmingham, Alabama, seeks to determine whether the prospective borrower is a good credit risk. If the borrower is found to be a good risk the company agrees to advance during construction up to 40 percent of the permanent loan, as it is contemplated that this amount will adequately pay the labor costs, the material bills being paid at final closing. Advances are made in ratio to the progress of the construction.

IN discussing construction loans, one MBA member declares that "whether or not a construction loan is sound depends a great deal on the personal integrity and reliability of the contractor, lumber company, or other agency borrowing the money. If these concerns are honest and reasonably competent we experience little difficulty with such loans. We are of the opinion that construction financing, on the whole, is reasonable and sound and should be engaged in by mortgage loan institutions."

To secure a first lien on the property involved, the title is first examined. The company has found it desirable to obtain a photograph of the property on the day the construction loan mortgage is executed, to insure proof that work was not in progress or materials delivered before that date. A mortgage is then executed and promptly placed of record.

The Realty Mortgage Company inspects construction work at intervals of about seven days. These periodic inspections bring company representatives into frequent contact with the builder, as well as the borrower. These contacts insure the correction of mistakes and differences and also promote harmony and good will.

When the building has been completed and a final inspection made the borrower is asked to compile statements from all materialmen and contractors. Extreme care is exercised in checking and paying these bills. Disbursements are, as a rule, payable jointly to all interested parties. The new mortgage is then executed and recorded and the original mortgage is cancelled.

Harry L. Schmitz, president of the Republic Realty Mortgage Corporation, a Chicago firm, writes that after receiving application for a construction loan the accompanying plans and specifications are checked by an appraiser who estimates the construction costs, comments on material to be used and the desirability of layout. These comments are made available to the prospective customer.

When the loan has been completed and construction work begun, the plans and specifications are referred to the company's inspector who examines the plans and the contractor's sworn statements in addition to checking the progress of the work each week during the time the building is under construction.

Requires Sworn Statement

At the time the mortgage is executed and title approved, the owner, architect or general contractor are required to furnish a sworn construction statement at least ten days before the loan is opened. This statement lists the names of all contractors and sub-contractors, and firms furnishing materials as well as the amount due to each.

This statement is then verified by sending to each individual named a statement for them to sign, giving the amount of their contract and the names of any material houses and the amount to become due to them. Sufficient funds must be on hand to insure full payment of each contractor or material house. If any shortage exists at the time the loan is opened, the amount must be supplied by the owner in the form of cash or waivers for work already completed.

Orders for payment of construction funds are furnished to the owner, architect or contractor to whom authority has been given to execute the same. This form consists of a combination order, waiver and affidavit. Detailed information is printed on the order to

(Continued page 6, column 1)

Mortgages That Are Made to Measure

How A New England Bank Set Out to Increase its Mortgage Loan Portfolio by Aggressive Methods

By WILLIAM PARKER STRAW

IN the fall of 1937 the management of the Amoskeag Savings Bank, Manchester, New Hampshire, became convinced that it had been overlooking the opportunity for a satisfactory investment by continuing an apathetic attitude regarding mortgages, particularly because the return from other high grade investments had become unsatisfactory, and especially because there had been such a definite improvement in business conditions in Manchester. We determined to inaugurate an aggressive campaign to increase our mortgage loans, with the very definite thought, to which we always have carefully adhered, that only the best mortgage investments would be considered.

Having decided, then, that there were mortgages to be obtained which would make a safe and satisfactory investment, we looked around for a definite loan plan with regular amortization as its foundation. We studied all of the various methods we could find, rejected the so-called Federal plan as unnecessarily expensive to operate owing to the large amount of bookkeeping required, and finally adopted what might well be called "The Huggins Plan."

This plan was devised by Allen Huggins, an officer of a New Hampshire savings bank, and because of its simplification and ease of accounting, had strong appeal. It provides for a monthly deposit at any window by the borrower, the amount, of course, varying with the amount of the mortgage and the length of time it has to run. Under the plan we furnish what to all appearances is a regular pass book. This, we think, is important because we found that many persons object to others knowing they owe money, even to a bank. The regular pass book which we give out under our mortgage plan in no way discloses whether the customer is depositing in his own personal savings account, or depositing upon our regular monthly amortization plan.

At the end of each six months we credit interest at our regular rate to the deposit thus far made, deduct the interest we charge, and credit the balance to the principal of the loan. This means that interest credits, interest charges and principal transfers are made only once each six months rather than every month as is the case with the direct reduction method.

Then, to stimulate regularity in deposits, we allow a 10 percent reduction in the rate to 4½ percent at the end of 10 years, provided monthly payments have been regularly made. Under this system, therefore, the cost to the borrower is somewhat less than under the monthly straight reduction plan upon the same rate basis, for the same amortization period.

We found, too, upon investigation that some lending institutions were charging bonuses running from 5 percent to 10 percent of the loan at the time the mortgage was taken, and borrowers seldom knew whether they were paying 5 percent or 6 percent for their money. Besides the bonuses, they were required to pay a lawyer's fee for the title search, fees for recording the mortgage, and also an investigation fee. These charges we determined to absorb, believing a 5 percent rate upon property wholly exempt from taxation under the state law, was all that we were entitled to receive.

MR. STRAW became president of the Amoskeag Savings Bank of Manchester, New Hampshire, in 1937. Under his direction the bank inaugurated a broad program designed to increase its mortgage loan portfolio. In this article Mr. Straw describes how the bank made a total of 1,020 mortgage loans aggregating $3,500,000 in a two-year period. Recently the bank made an important change in its mortgage policy, allowing a reduction in interest rates from 5 to 4½ percent.

An aggressive advertising campaign was inaugurated both in the newspapers and via the air, bringing out the fact that 5 percent interest with one rate to all, was the only cost to the borrower: that we asked no bonuses, no lawyer's fees, no recording fees, and no investigation fees. We stressed this point over and over again in our advertising, using effectively the plain, homely phrases, "Come on in and see us," "Come on in and talk it over," "It's your eyes we look at, not your clothes," etc. In other words, our appeal was to the common man to make him see that our bank was his bank; that he did not need to go home to change his clothes every time he came in; that we spoke his own language.

What the Figures Show

The result was that within a year's time we had increased our mortgage portfolio by $1,662,000, representing 555 loans and that during 1939 we added 465 more loans to our portfolio, with an aggregate value of $1,838,000. This gives us for the last two years an increase of 1,020 in the number of mortgage loans, aggregating $3,500,000, or approximately $3,500 per loan.

It is interesting to note, too, that during this period 688 loans were rejected as below the standard which we had set; which, if taken, would have added $2,800,000 more to our portfolio. Thus only about 60 percent of the total number of applications received were accepted. The loans which we have taken average not more than 15 years, and not more than 65 percent of what we consider true value. We have today approximately 1,150 mortgage accounts which are being regularly amortized and there were only six delinquencies.

We have not bought any Federal Housing Administration large scale mortgages, though we have originated

some of these or accepted them at the suggestion of the FHA organization in New Hampshire. In these cases we ourselves absorb the half of one percent insurance cost so that the cost to the borrower is the same as for uninsured mortgages. We believe that we properly and safely do this because of the Government guarantee which accompanies the mortgage.

In interviewing prospective customers about to build, we became impressed with how little they knew of construction both as to quality and convenience, and we thought that one definite service we could render them would be the advice of an architect. We therefore arranged for and extensively advertised free architectural service, which has been a great help to our bank in obtaining loans, and has given to the loans greater stability because of greater satisfaction to the mortgagor. We have many plans which we furnish without charge, innumerable photographs and booklets, and a set of miniature demountable houses which give any prospective customer a clear idea of what his house will look like, inside and out; together with the appearance and cost of additions and improvements which may be made from time to time, such as porches, bay windows, garages, and so on.

Bank Absorbs Charges

Our architect alters any plans to suit the prospective borrowers' ideas, draws up proper specifications and makes the necessary number of inspections as houses are being built, to insure that they are constructed in accordance with specifications. The cost to the bank occasioned by the absorption of these various charges is exactly $26 per loan, which figures 2 percent of the entire interest we receive on a $3,000 loan over a 15-year period.

We have also, for those who care to avail themselves of it, a plan of term life insurance which must be taken out, if taken at all, at the time the mortgage is placed. The cost to the assured at the age of 30 is only 60 cents per $1,000 per month, and our suggestion is that he take our insurance for, say, one-half the amount of the loan which, in case of his death, would amply protect his estate against demand for further payments upon the mortgage for some time to come, and so relieve his wife from worry about the loan, and lift from her shoulders a great burden of anxiety at a very critical period in life.

For instance, if we determine the value of a property to be $3,000, we might lend 66-2/3 percent on it, or $2,000. If the mortgagor insured for one-half this amount, or $1,200, and died immediately, he would leave only a $1,200 loan upon property worth $3,600. If the mortgagor had lived five years, amortization upon a 15-year basis would have reduced the loan to $1,800 from $2,400, which would mean we would have only $600 in the property worth $3,600.

This is certainly a satisfactory investment and one that would not call for further amortization for some time to come. Indeed, a portion of the insurance well might be used to pay taxes and insurance under certain conditions. If the mortgagor decides to take the insurance, he selects his own company, and the bank pays the first year's premium in advance, adding it to the principal of the loan so that by the end of the year the bank is reimbursed.

Rate Reduction Now

Recently we inaugurated an important change in our whole mortgage plan. Where we formerly allowed a reduction in interest rate from 5 to 4½ percent at the end of 10 years of satisfactory experience, we now are making this reduction take effect at once—now.

The note still is written at 5 percent and only those benefit by the lower rate who have made their monthly payments promptly over each six months period, and either have paid with regularity the proper proportion of their taxes, or who satisfy us that provision for them has been made.

I have been inclined to share the opinion held by many New Hampshire bankers that there is no sound reason why mortgage interest rates should be pegged at 5 percent: why it should not follow to some degree general interest rates.

When, as is the case in New Hampshire, 5 percent has been the maximum mortgage rate for many years, it does not seem unreasonable to me that mortgagees in good standing should expect to borrow their money under present day conditions for less than this maximum rate. It is true, of course, that mortgages, even when written on demand, are expected to be comparatively long contractual agreements, and consequently should command a reasonably high rate under normal conditions. But conditions today are not normal.

It is my belief that in making a concession of one-half of one percent in our mortgage rates, based upon performance, and continued only as long as in our judgment conditions warrant, we are doing the least we can do for our mortgagors, and have taken a step which will rebound to the best interests of the bank.

We decided to make this change in our mortgage rates not so much because we anticipated getting more mortgages thereby, for other banks would go along with us, but rather because of the persistent suggestions and requests for a reduction in rate by prospective borrowers and old customers as well. The sentiment was widespread that in a spirit of fairness, and as evidence of our boasted willingness to cooperate, we should reduce our rate.

Low Rates Offered

It was becoming pretty generally known in our community that many banks in the larger centers were writing mortgages for less than 5 percent and this fact often was called to our attention. The insurance companies were actively soliciting business in our midst, offering as low a rate as 4 percent. We already had lost some of our best mortgages by sheer stubbornness in our determination to stay at 5 percent, but were beginning to see that the time had come to meet their competition. We thought that any of our borrowers would pay us one-half of one percent more because of the close personal relationship with us, as against the impersonal relationship existing between the insurance company and himself.

Another reason for 4½ percent is the very fact that the Government will not insure its FHA mortgages written for more than 4½ percent. This has in some way made the public think that this same rate should be allowed by savings banks. When we told a prospective borrower that our rate was 5 percent the reply was "Why, the Government loans money under the FHA at 4½ percent" and although this is not true, it seemed to be so definitely established in the mind of the borrower it was almost impossible to convince him of his error. Although this may be no special reason for reducing mortgage interest, it is, nevertheless, one factor which has created a demand for a lower rate than 5 percent, and has a definite bearing on the situation.

We advised our mortgagors, who were not regularly amortizing but on whose property the principal amount of the mortgage was 50 percent or less, that they, provided they accepted our regular plan of amortization, would re-

(Continued on page 5)

Mortgage Group Rates Building Construction

New York Mortgage Conference Has Developed A System For Rating New Apartment Houses

IN the summer of 1934 a group of New York City's leading mortgage lenders organized the Mortgage Conference to study metropolitan real estate and building. Ever since the organization of the Mortgage Conference, its Executive Secretary, John F. McKean, had been toying with the idea of rating the construction of buildings as a part of its service to New York savings banks, trust companies and life insurance companies.

When the center wing of a New York apartment house collapsed in 1936, crushing 18 workmen to death, the Conference decided to take action. Tailoring its plan of attack to the lending pattern of its members, the Conference proposed to limit its rating activities to new apartment structures within New York City.

Approximately one-third of all New York apartment houses are financed on a permanent basis and enjoy periodic inspection and supervision by the financier's architect. Two out of three apartment houses, however, go up in a different fashion. Since permanent financing is not obtained until these buildings are completed, the lending institutions had only a vague idea of the quality of collateral behind their long term mortgages.

Formerly little of this type of construction was controlled by detailed specifications and little was subject to professional inspection and supervision. Because the New York building code requires that all structures 75 feet or higher must be completely fireproofed, the bulk of these apartments are six-story elevator-type buildings of cheaper, non-fireproof construction. It was into this apartment field that the Mortgage Conference moved in the spring of 1937.

During the last three years the Conference has kept a watchful eye on the erection of some 200 buildings, including 50 now under construction, has rated each on the quality of its construction and equipment and has sent to every interested member institution a summary of its findings. This service now enables the institution to adjust its mortgages in line with the known quality of the buildings. Thus a building with a high rating will get a longer term loan covering a higher percentage of value than will a lower grade building.

WHEN a New York apartment house collapsed during construction in 1936 killing 18 workmen, the Mortgage Conference, an organization of New York City's leading mortgage lenders, decided it could perform an essential service by developing a system of rating the construction of buildings. During the past three years the Conference has kept a watchful eye on the erection of some 200 apartment buildings. The success of this rating system is described in this article which appeared in the May issue of The Architectural Forum.

Adopting the symbols used by Moody's Investors Service, the Conference runs its rating from a high of triple-A down through AA, A, BAA, etc., to a low of C. Responsible for these alphabetical ratings is Tom H. Rankin, a civil engineer retained by the Conference to supervise construction rating. Each day he visits seven or eight sites and critically inspects the quality of the work performed since his previous inspection.

At the end of each week Engineer Rankin reviews his notes, enters on a master report for each building a summary of his findings and a sub-rating for the current phase of construction. If this rating is substantially different from those assigned to earlier construction details, it may alter his preliminary overall rating of the building. Upon completion of the building, Rankin weighs and averages the ratings for each classification of construction, arrives at a "general rating" for the structure as a whole.

More readily apparent than the assistance rendered lending institutions by this building rating system is the improvement it has effected in New York apartment house construction. Since builders are vitally interested in the permanent financing terms their buildings will receive—with but two exceptions they have welcomed Rankin's inspections, and most of them have followed at least some of his suggestions in subsequent construction.

TAILOR-MADE MORTGAGES

(*Continued from page 4*)

ceive the benefit of the 4½ percent rate. In other words, we are trying to get every one to amortize their mortgages until indebtedness is reduced to no more than 25 percent of what we consider the value of the property—nor do we want them to stop there.

We have made mistakes, and undoubtedly will make more, but we honestly have tried to merit the confidence of our depositors, and to show our people by a businesslike yet liberal loan policy that we have confidence in their future, and in the future of the city and state as well.

During the first quarter of 1940, a total of 61,720 family dwelling units, costing $217,110,600, were constructed or were under construction in cities over 10,000 population, an increase of 1,662 units and $4,016,100 in value over the same period in 1939. March residential construction was valued at $88,518,400, a gain of $16,216,300 over February and $3,284,200 over March of last year.

The quarterly increase was due principally to greater activity in the private construction industry.

There has been such an increase in home building during recent months in Colorado Springs, Colorado, that the city has been forced to fill the post of city building inspector. The position had been vacant for ten years.

CONSTRUCTION LOANS

(Continued from page 2)

avoid confusion and delay in making payments. A planographed sample of a properly filled in form is furnished to all contractors doing business with the firm for the first time.

The procedure followed by Reid-McGee and Company, Jackson, Mississippi, in making construction loans is to take the promissory note of the owner secured by a deed of trust on the premises which will run in favor of the general contractor and will be in the amount of the contract. Occasionally, according to J. C. McGee, president of Reid-McGee and Company, the lumber company furnishing the major share of the materials is included in this note and deed of trust. The bank then takes an assignment of this note and deed of trust from the general contractor (and the lumber company if necessary.) The mortgage and assignment thereof are placed of record as constructive notice to everyone.

A simple assignment from the general contractor is drawn assigning the proceeds of the contract for the construction of the residence, giving the date and amount thereof as well as the description of the property on which the residence is to be constructed. The owners approve this assignment as well as the lumber company, if one is involved.

The company takes notes from the contractor or lumber company borrowing the money for the amounts of the advancements on construction as the same are actually made. The collateral pledged to secure these notes is the assignment of the owners' note and deed of trust securing same and the assignment of the proceeds of the contract. These advancements are made as the construction progresses and as the money is normally needed to meet payrolls and the purchase of materials used.

Company Inspects Progress

The Reid-McGee Company finds it advisable to inspect the residence as the construction progresses and as the advancements are made so that the amounts actually loaned will keep step with the actual construction of the residence. This practice discourages the improper use of the money on other jobs by the borrower.

In making a construction loan, Allied Mortgages, Inc., Cleveland, Ohio, protects itself against liens coming ahead of the mortgage by placing the mortgage of record prior to the delivery of any material on the site or the performance of any work. Proof of this fact is obtained by a civil engineer's certificate and a photograph which indicates that there is no material on the site or that no work has been performed.

Norman R. Lloyd, president of Allied Mortgages, Inc., insists that the borrower deposit in escrow with the title company, a sum of money equal to the difference between the contract price, or, in the case of a speculative house, the appraisal value of the physical improvement, and the loan.

This money is used to pay for labor and material before the company disburses any of its funds. By following this procedure the mortgage company has a cushion of approximately 25 percent which leaves it with a sufficient sum to complete the property in the event the borrower becomes a poor risk or the contractor fails.

By requiring that all bills be approved by the owner prior to payment by the title company, any possibility of the owner setting up a defense, in the event of foreclosure, by pleading that the money was advanced without authorization, is eliminated. Such a practice also prevents any dispute between the mortgage company and the borrower where there has been a disagreement between the borrower and the contractor as to the delivery of material or the quality of work performed on the premises.

West Coast Practices

A west coast MBA member, Mason McDuffie Company, Inc., Berkeley, California, reports that in cases where FHA financing is not required the company will make commitments for long term loans and finance the construction. This loan usually is made for a long term with the privilege of prepayment granted to the borrower at the time of completion, says Frederick S. Duhring, loan manager.

In handling a construction loan, the Mason-McDuffie Company proceeds as follows: the loan is approved, papers are executed, and immediately upon recording the lot is photographed and an affidavit secured that no work has been performed or materials delivered on the site. Construction then proceeds and payments are made on either a four or five payment plan to the contractor during construction, with the final payment made 35 days after the notice of completion has been filed.

CITY DECAY

The failure of city authorities to take leadership in preventing the decay of property adjacent to business districts, when it might be turning tax revenue into city treasuries, is sharply criticized by Fred W. Catlett, a member of the Federal Home Loan Bank Board.

While admitting that a great share of the blame rests with the owners of the property, many of whom are absentee landlords, Catlett declares that often the individual is powerless to act by himself.

"Nothing is going to be done toward rehabilitating these areas—and conserving the value of other properties which have not yet reached a serious stage of decline — unless civic authorities take the lead in a definite rehabilitation and conservation program," he said.

"The drift of home seekers to the suburbs, and the activity of operative builders and real estate concerns in new housing developments on the outskirts of cities, have intensified the problem in the past years. Entire residential areas near downtown districts, and even those considered 'the best part of town' a short time ago, now are marked by 'For Sale' and 'For Rent' signs, with many of the houses in a dilapidated condition from neglect. Cities not only are losing the direct tax revenue from these districts, but the abandonment of utilities which serve them will represent a still greater loss in the future."

The Farm Mortgage Debt

From 1923 to 1940 the total amount of farm mortgages outstanding fell from $10,785,621,000 to approximately $6,900,000,000, according to the Farm Credit Administration. Only one interruption (1927-28) marked the decline which was greatly accelerated during the period from 1930-34.

The distribution of the outstanding farm mortgage debt between the different types of lending agencies was not altered materially in 1939. Following the trend of the two previous years the commercial banks increased their holdings somewhat while the insurance companies and the Federally sponsored agencies, other than the Farm Security Administration, showed slight decreases.

On January 1, 1939, the Federal land banks and the Federal Farm Mortgage Corporation held approximately 40 percent of the farm mortgage indebtedness of the United States; commercial banks held about 7 percent; insurance companies 13 percent; joint stock land banks 1 percent; and other agencies and individuals, 39 percent.

The MORTGAGE BANKER

Published Semi-Monthly by the
MORTGAGE BANKERS
ASSOCIATION OF AMERICA
111 West Washington Street, Chicago

JUNE 15, 1940

National Tax Commission Proposed

The real solution to our national tax dilemma awaits the appointment of an unbiased National Tax Commission, in the opinion of Congressman Emanuel Cellar of New York who has introduced a joint resolution in the present session of congress to create such a commission to study the general tax structure and suggest action to eliminate overlapping levies.

Congressman Cellar points out that the United States has 49 separate and distinct tax systems—one for the Federal government and one for each of the 48 states in addition to 175,000 local agencies which levy taxes under the authority of State governments.

As the result of this complexity, says the New York congressman, double income taxes, double taxes on mortgages, double taxes on dividends, wages, profits, and rents have created inequities which can be described in no other terms than discriminatory double taxation.

Among the provisions of the joint resolution calling for the establishment of a Federal Tax Commission are the following:

1. "To establish a stable, more permanent tax structure, to avoid frequent changes in tax laws and minimize the adverse effect of changes in tax laws on individual initiative, investment and employment.

2. "To simplify the Federal tax system, including the forms of taxation, the statement of the law, and the methods of administration.

3. "To co-ordinate the Federal tax system with those of the State and local governments to the end that double taxation may be minimized and overlapping or needless cost of administration reduced."

The proposed commission would be composed of seven members, representing government, agriculture, labor, individual taxpayers, consumers, industry and finance, lawyers, certified public accountants and economists. Congressman Cellar suggests that it may be desirable or even necessary to increase the number of members of the commission to give representation to other groups not already included.

Under the resolution, the proposed commission would be authorized to hold hearings; make surveys; utilize the services, information, facilities and personnel of the departments and agencies in the Executive branch of the government, of the joint Congressional Committee on Internal Revenue Taxation, and of the office of the Legislative Council.

ON LOBBYING

"Lobbying is evil, we hear. It is also costly. If a corporation wanted to mail 630,000 first-class letters to its stockholders or customers asking their support of a bill before Congress it would have to spend $18,900 for postage, in addition to other costs.

"But when the governor of the Farm Credit Administration sends to 630,000 Federal Land Bank borrowers a memorandum signed by Secretary Wallace plugging the Jones-Wheeler bill to ease farm loan charges, the invoice goes to the taxpayer. The banks and mortgage companies who are injured by the competition provided in this bill should have franking privileges for a reply to the Secretary."—Nation's Business.

BROADEN THE BASE OF TAXATION

The economic and social well-being of rural life is threatened by the twin millstones of excessive taxation and mounting debts. One of the heaviest burdens upon the farmer as well as the home owner is the cost of modern government. This crushing burden affects every farmyard and every home in the Republic.

Only when men own the ground they till, only when families can gather under their own roof—can we preserve our institutions against danger and storm. A great mistake of the present is thinking that American institutions are threatened only by sinister alien forces from abroad. No one denies that there may be a few boring from within, but they are but a drop in the bucket. No external forces can ever destroy our Republic. Our dangers are more indirect and more subtle. One of the most serious forces is the growth of taxation and its effect on rural life.

No one denies that good government is essential or that wise and necessary public expenditures are an investment that pays dividends. The farm or home owner is willing to share, with income and other forms of property and wealth, the cost of government. But taxes on a farm or on a home in town cannot be passed on. This burden must be carried solely by the owner and here comes the challenge of pyramiding and increasing taxation. On many a farm in the nation today taxes are greater than the cash rent on that farm was a half century ago. What is true of farms is equally true of homes and business institutions as well. The story of life insurance companies and land banks, is, again and again, that the total taxes against foreclosed property are more than the unpaid interest.

Demand efficiency and economy in government. Thrift is still a virtue for the individual. It is even a greater virtue for the selected representatives of the people. Broaden the base of taxation so that every form of taxation makes its fair contribution to the cost of government. Consider governmental debt to be what it is, simply deferred taxation. These are necessary steps, if we are to preserve our national institutions.

But these steps alone will not protect farm real estate. It is time to write into our state constitutions not only debt limits but tax limits to compel reasonable economy and thrift. The experience of every state in the Union with a debt limit and a tax limit proves that it does reduce the costs per individual and per farm.—Lewis J. Taber, Master of the National Grange.

Approximately 200 out of 600 subdivisions analyzed by the Federal Housing Administration during the first quarter of 1940 were designed for homes costing $4,000 or less, complete with house and lot. This is seen as a sign that the trend toward lower priced houses will continue in the near future as these and similar properties are offered the home-buying public.

Association ACTIVITIES

★ NEWS OF WHAT'S HAPPENING AMONG MBA MEMBERS AND OUR LOCAL ASSOCIATIONS

TWO NEW MBA LOCALS FORMED

Applications for charters have been received from two MBA local associations, making a total of 29 local associations to apply for charters. The Kansas City, Missouri, Mortgage Dealers Association reached a decision to apply for a charter on May 21. Forty-two were present at the meeting. President Byron T. Shutz of the MBA addressed the group and outlined organization plans and activities.

Dale M. Thompson, vice president of the City Bond and Mortgage Company, is president of the Kansas City organization and Paul Jones, associated with Herbert V. Jones & Company, is secretary.

The Huntington, W. Va., Mortgage Bankers Association was organized on May 22 and applied for a charter. Eighteen persons, representing the principal mortgage lending institutions in Huntington, were present. Ray D. Powell, who heads his own realty firm, was elected president and R. T. Ayers of the Pancake Realty Company was named secretary. The Huntington Mortgage Bankers Association is the first local organization of mortgage men in West Virginia to seek affiliation with the national organization.

Secretary George H. Patterson of the MBA assisted in organizing the Huntington local.

While in Huntington Mr. Patterson was a guest at a luncheon meeting of the Huntington Board of Realtors where he discussed the policies and objectives of the Mortgage Bankers Association of America.

TO DISCUSS FORMATION OF KNOXVILLE LOCAL

Mortgage lending organizations of Knoxville, Tennessee, headed by John W. Conner of the Fidelity-Bankers Trust Co., of that city, are discussing plans to organize a local mortgage loan association. The Knoxville group, according to Mr. Conner, hopes to apply for a local charter from the Mortgage Bankers Association of America.

BOARD OF GOVERNORS TO MEET JUNE 19-21

The regular mid-year meeting of the MBA Board of Governors will be held June 19, 20 and 21 at the Knickerbocker Hotel in Chicago. The Executive Committee of the Association will meet on the 19th. The following day will be devoted to a meeting of the Past President's Advisory Committee and the committee planning the annual convention program. The Board of Governors will meet on the 21st.

President Byron T. Shutz stressed the fact that the June meeting is the most important of the year because it provides the last opportunity for the board to meet before the Chicago convention which will be held on October 2, 3 and 4. He urged the attendance of every board member.

HEADS NEBRASKA MBA

Grover K. Baumgartner

Grover K. Baumgartner, Vice President of the First Trust Company of Lincoln, Nebraska, has been elected President of the Nebraska Mortgage Bankers Association. Mr. Baumgartner succeeds C. W. Mead of The Nebraska Bond and Mortgage Corporation, Omaha. T. R. Richardson, Vice President and Treasurer of The Western Securities Corporation, Omaha, was named Vice President of the Nebraska group.

TEXAS MBA MEETS

Members of the Texas Mortgage Bankers Association held their annual convention at Dallas on May 24 and 25. The convention provided the members an opportunity to discuss events of the past year and new trends in the mortgage business. One of the principal speakers at the convention was W. A. Clarke of Philadelphia, Pennsylvania, president of the W. A. Clarke Mortgage Co., and a member of the Board of Governors of MBA.

Frank Wolff of the W. K. Ewing Co., San Antonio, Texas, is president of the Texas Mortgage Bankers Association.

LOCAL MBA ASSISTS IN SHORT COURSE

The Fifteenth Annual Nebraska Land Valuation and Management Short Course was held on June 14 at the University of Nebraska, Lincoln. The University's College of Agriculture and the Nebraska Mortgage Bankers Association cooperated in conducting the one-day course which was open to any person interested in land valuation, conservation and management. G. K. Baumgartner, President of the Nebraska MBA, presided at the afternoon session of the short course.

SOUTHERN CALIFORNIA GROUP MEETS

Members of the Southern California Mortgage Bankers Association held their final meeting before recessing for the summer on June 11 at the Brentwood Country Club in Los Angeles. The group enjoyed an afternoon of golf before the dinner. Ralph Jenkins, Secretary of the H. F. Whittle Investment Co., Los Angeles, was in charge of the golf arrangements.

Following a discussion of the effects of the last World War on the mortgage business, Walker Smith, President of Smith & Sons Investment Co., Pasadena, conducted a symposium on questions of current interest to mortgage men.